



THINKING BEYOND...™

The Dynamic Duo:

the Deferred Inheritance Trust & the Enhanced Income Trust

These two powerful trusts are, in many ways, mirror opposites of one another. Properly designed, the **Deferred Inheritance Trust** pays its income to charity (usually a family foundation with our clients) for a term of years, or life, then terminates, and the trust assets pass to your heirs, gift/estate tax free. The **Enhanced Income Trust**, on the other hand, pays its annual income to you and your family. Upon termination, the trust assets pass to your family foundation.

Each of these tools, individually, produces considerable planning leverage, but when they are combined they can provide a very effective planning strategy. Consider the following case scenario.

Meet Bob and Mary Ballard. They are 69 and 65 respectively. They have a net worth of about \$10,000,000 and, unfortunately, are both in extremely poor health. With their current distribution plan, their five children would receive about \$5 million of their Personal Capital at their death and the IRS would receive their Social Capital of about \$5 million.

Even though the Ballards were very interested in giving to charity, they could not see how it would be possible to do so without reducing their children's inheritance that was already only half of their wealth. Consequently, like most other wealthy families, they simply opted to do nothing for any charity.

The Ballards completed the entire Fam-

ily Wealth Counseling process and produced their *Family Wealth Letter of Intent*. In going through this process, they decided to stagger their children's inheritance over a number of years instead of giving it all at their deaths. They also liked the idea of setting up a family foundation and allowing their children to retain the control of all their Social Capital.

The Ballards felt that \$1 million to each of their five children was a reasonable inheritance. Because their extremely poor health had reduced our planning options and their life expectancy, we asked them if they would be open to providing their children with the income stream from their inheritance for the first 10 years and then receiving the actual inher-

itance. They thought that would be completely acceptable, since the children would probably invest the money for income during that time period anyway.

This planning option opened the door for the Ballards to redirect their Social Capital from going to the IRS to going to their own family foundation and ultimately to the charitable causes and organizations their family cared about.

Here is what we did: In order to maximize the leverage in the Ballard's comprehensive Family Wealth Plan, we suggested combining a testamentary Enhanced Income Trust with a testamentary Deferred Inher-

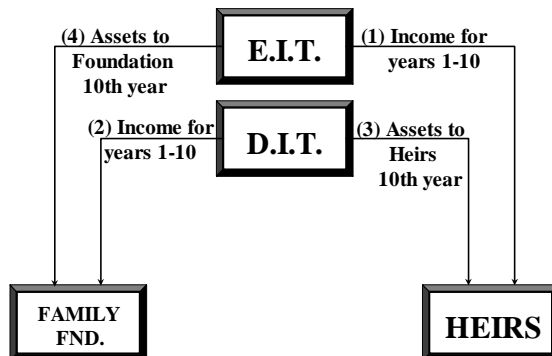
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ance Trust. By establishing a Family Limited Partnership during their lifetime and funding it with the assets ultimately going into the Deferred Inheritance Trust, we were able to significantly increase the pay-out rate of the trust to their foundation and consequently shorten the trust's term to 10 years. The trust would be set up to pay income to their Family Foundation for 10 years. At that time it would terminate and the \$5 million in trust would pass to the children tax free.

The Enhanced Income trust was also set as a 10-year trust with the five children being equal income beneficiaries of the trust. Because the trust term was set for 10 years, the charitable estate tax deduction would be quite substantial. Using their \$1.2 million lifetime exclusion, we could actually eliminate all the estate tax liability due on the income stream to their children.

The following flowchart illustrates how this simple, yet powerful, technique works.



The net result of this creative planning strategy was profound. The Ballard children receive essentially the same inheritance with the proposed plan as they would have with the current plan. But the real difference is that instead of the Ballards paying the IRS \$5 million in estate taxes, they now will have \$9 million in their own family foundation under the control of their children.

Consider the following results:

	OLD PLAN	NEW PLAN
Benefits to Children (10 yrs.)	\$9 million assets/income	\$9 million assets/income
Benefits to IRS	\$4.5 million	\$ 0
Benefits to Charity (10 yrs.)	\$ 0	\$9 million assets/income
Total Controlled by Ballard Family	\$9 million assets/income	\$18 million assets/income

It is so exciting to see what can be done when you are willing to begin *Thinking Beyond . . . the nine dots.*

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